

**Fiscal 2012**

(1 April 2012 to 31 March 2013)

Japan Finance Organization for Municipalities

# **Financial Statements**

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# Financial Statements

## Balance Sheets

(As of 31 March 2012 and 2013)

(Millions of yen) (Thousands of U.S. dollars)

Item	Fiscal 2011 (31 March 2012)	Fiscal 2012 (31 March 2013)		Item	Fiscal 2011 (31 March 2012)	Fiscal 2012 (31 March 2013)	
	Amount				Amount		
Assets				Liabilities			
Loans (Note 5)	¥22,387,411	¥22,668,634	\$240,388,489	Bonds (Notes 9 and 10)	¥18,176,696	¥18,676,401	\$198,053,033
Securities (Note 18)	762,987	598,994	6,352,012	Borrowed money (Note 11)	30,000	30,000	318,134
Cash and bank deposits	172,250	419,267	4,446,104	Other liabilities	15,373	15,121	160,352
Other assets	14,894	14,173	150,306	Reserve for bonuses (Note 12)	47	47	498
Tangible fixed assets (Note 8)	2,563	2,964	31,439	Reserve for directors' bonuses (Note 12)	6	5	57
Intangible fixed assets (Note 8)	600	883	9,371	Reserve for retirement benefits (Notes 12 and 15)	146	141	1,505
				Reserve for retirement benefits for directors and corporate auditors (Note 12)	23	27	291
				Fund for lending rate reduction	919,871	922,568	9,783,339
				Basic fund for lending rate reduction (Note 14)	911,935	915,698	9,710,487
				Additional fund for lending rate reduction (Note 14)	7,936	6,869	72,852
				Reserves under special laws	4,104,844	3,947,086	41,856,694
				Reserve for interest rate volatility (Note 13)	880,000	1,100,000	11,664,899
				Management account reserve for interest rate volatility (Note 13)	3,137,557	2,771,200	29,387,070
				Reserve for interest rate reduction	87,287	75,885	804,725
				Total liabilities	23,247,010	23,591,399	250,173,903
				Net Assets			
				Capital	16,602	16,602	176,056
				Retained earnings	29,393	50,221	532,576
				General account surplus reserve	29,393	50,221	532,576
				Valuation, translation adjustments and others	(5,964)	(6,970)	(73,914)
				Management account surplus reserve	53,666	53,666	569,100
				Total net assets	93,696	113,520	1,203,818
Total assets	¥23,340,707	¥23,704,919	\$251,377,721	Total liabilities and net assets	¥23,340,707	¥23,704,919	\$251,377,721

See notes to financial statements.

## Statements of Income

(For the years ended 31 March 2012 and 2013)

(Millions of yen) (Thousands of U.S. dollars)

Item	Fiscal 2011 (1 April 2011 to 31 March 2012)	Fiscal 2012 (1 April 2012 to 31 March 2013)	
	Amount	Amount	
Income	¥511,805	¥487,146	\$5,165,928
Interest income	511,641	485,675	5,150,324
Fees and commissions	128	123	1,308
Other income	34	1,348	14,296
Contributions from fund for lending rate reduction (Note 14)	-	1,066	11,306
Others	34	281	2,990
Expenses	281,749	274,076	2,906,433
Interest expenses	274,320	265,647	2,817,046
Fees and commissions	275	280	2,976
Other operating expenses	4,539	5,519	58,527
General and administrative expenses	2,385	2,629	27,884
Other expenses	229	-	-
Transfer to fund for lending rate reduction (Note 14)	216	-	-
Others	12	-	-
Ordinary income	230,055	213,070	2,259,495
Special gains	232,601	581,402	6,165,451
Reversal of management account reserve for interest rate volatility (Note 13)	220,000	570,000	6,044,539
Reversal of reserve for interest rate reduction	12,601	11,402	120,912
Special losses	441,024	773,643	8,204,069
Provision for reserve for interest rate volatility (Note 13)	220,000	220,000	2,332,980
Provision for management account reserve for interest rate volatility (Note 13)	221,024	203,643	2,159,530
Payment to national treasury (Note 4 and 6)	-	350,000	3,711,559
Net income	¥21,632	¥20,828	\$220,877

See notes to financial statements.

## Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2012)

(Millions of yen)

1 Profit available for appropriation		¥15,532
Net income	¥15,532	
Accumulated deficit brought forward	-	
2 Profit appropriated		
Surplus reserve	15,532	15,532

## Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2013)

(Millions of yen)

1 Profit available for appropriation		¥20,828
Net income	¥20,828	
Accumulated deficit brought forward	-	
2 Profit appropriated		
Surplus reserve	20,828	20,828

(Thousands of U.S. dollars)

1 Profit available for appropriation		\$220,877
Net income	\$220,877	
Accumulated deficit brought forward	-	
2 Profit appropriated		
Surplus reserve	220,877	220,877

Notes: 1. Profit was appropriated at the end of this fiscal year in accordance with the provisions of Article 39, Section 1 of the Japan Finance Organization for Municipalities Law (Law No. 64, 2007; hereinafter the "Law").

2. Surplus reserve appropriated was posted as general account surplus reserve on the balance sheets.

See notes to financial statements.

## Statements of Appropriation of Profit [Management account]

(For the year ended 31 March 2012)

(Millions of yen)

1 Profit available for appropriation		¥6,100
Net income	¥6,100	
Accumulated deficit brought forward	-	
2 Profit appropriated		
Surplus reserve	6,100	6,100

## Statements of Appropriation of Profit [Management account]

(For the year ended 31 March 2013)

(Millions of yen)

1 Profit available for appropriation		¥-
Net income	¥-	
Accumulated deficit brought forward	-	
2 Profit appropriated		
Surplus reserve	-	-

(Thousands of U.S. dollars)

1 Profit available for appropriation		\$-
Net income	\$-	
Accumulated deficit brought forward	-	
2 Profit appropriated		
Surplus reserve	-	-

Notes: 1. Profit was appropriated at the end of this fiscal year in accordance with the provisions of Article 13, Section 8 of the Supplementary Provisions of the Law.

2. Surplus reserve appropriated was posted as management account surplus reserve on the balance sheets.

See notes to financial statements.

## Statements of Changes in Net Assets

(For the year ended 31 March 2012)

(Millions of yen)

	Stockholders' equity				Valuation, translation adjustments and others	Management account surplus reserve	Total net assets
	Capital	Retained earnings		Total stockholders' equity	Unrealized gain/ (loss) from hedging instruments		
		General account surplus reserve	Total retained earnings				
Balance as of 1 April 2011	¥16,602	¥13,860	¥13,860	¥30,462	¥(8,645)	¥47,565	¥69,382
Changes during accounting period							
Net income	-	15,532	15,532	15,532	-	6,100	21,632
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	2,681	-	2,681
Net changes during accounting period	-	15,532	15,532	15,532	2,681	6,100	24,314
Balance as of 31 March 2012	¥16,602	¥29,393	¥29,393	¥45,995	¥(5,964)	¥53,666	¥93,696

(For the year ended 31 March 2013)

(Millions of yen)

	Stockholders' equity				Valuation, translation adjustments and others	Management account surplus reserve	Total net assets
	Capital	Retained earnings		Total stockholders' equity	Unrealized gain/ (loss) from hedging instruments		
		General account surplus reserve	Total retained earnings				
Balance as of 1 April 2012	¥16,602	¥29,393	¥29,393	¥45,995	¥(5,964)	¥53,666	¥93,696
Changes during accounting period							
Net income	-	20,828	20,828	20,828	-	-	20,828
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	(1,005)	-	(1,005)
Net changes during accounting period	-	20,828	20,828	20,828	(1,005)	-	19,823
Balance as of 31 March 2013	¥16,602	¥50,221	¥50,221	¥66,824	¥(6,970)	¥53,666	¥113,520

(For the year ended 31 March 2013)

(Thousands of U.S. dollars)

	Stockholders' equity				Valuation, translation adjustments and others	Management account surplus reserve	Total net assets
	Capital	Retained earnings		Total stockholders' equity	Unrealized gain/ (loss) from hedging instruments		
		General account surplus reserve	Total retained earnings				
Balance as of 1 April 2012	\$176,056	\$311,699	\$311,699	\$487,755	\$(63,253)	\$569,100	\$993,602
Changes during accounting period							
Net income	-	220,877	220,877	220,877	-	-	220,877
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	(10,661)	-	(10,661)
Net changes during accounting period	-	220,877	220,877	220,877	(10,661)	-	210,216
Balance as of 31 March 2013	\$176,056	\$532,576	\$532,576	\$708,632	\$(73,914)	\$569,100	\$1,203,818

See notes to financial statements.



## Statements of Cash Flows

(For the years ended 31 March 2012 and 2013)

(Millions of yen) (Thousands of U.S. dollars)

Item	Fiscal 2011 (1 April 2011 to 31 March 2012)	Fiscal 2012 (1 April 2012 to 31 March 2013)	
	Amount	Amount	
<b>I Cash flows from operating activities</b>			
Net income	¥21,632	¥20,828	\$220,877
Depreciation and amortization	345	354	3,757
Interest income	(511,641)	(485,675)	(5,150,324)
Interest expenses	274,320	265,647	2,817,046
Increase/(decrease) in reserve for bonuses	6	(0)	(9)
Decrease in reserve for directors' bonuses	(0)	(1)	(16)
Decrease in reserve for retirement benefits	(48)	(4)	(52)
Increase/(decrease) in reserve for retirement benefits for directors and corporate auditors	(3)	3	36
Increase/(decrease) in fund for lending rate reduction	216	(1,066)	(11,306)
Increase in reserve for interest rate volatility	220,000	220,000	2,332,980
Increase/(decrease) in management account reserve for interest rate volatility	1,024	(16,356)	(173,450)
Decrease in reserve for interest rate reduction	(12,601)	(11,402)	(120,912)
Net (increase)/decrease in loans	(155,554)	(281,223)	(2,982,222)
Net increase/(decrease) in bonds	(154,272)	495,783	5,257,515
Net increase/(decrease) in borrowed money	30,000	-	-
Interest received	513,086	486,149	5,155,351
Interest paid	(271,287)	(262,457)	(2,783,214)
Others	1,507	(981)	(10,408)
Net cash provided by/(used in) operating activities	(43,268)	429,597	4,555,649
<b>II Cash flows from investing activities</b>			
Proceeds from redemption of securities	4,065,600	5,027,000	53,308,590
Purchases of securities	(4,370,780)	(4,862,748)	(51,566,794)
Purchases of tangible fixed assets	(108)	(450)	(4,774)
Purchases of intangible fixed assets	(75)	(145)	(1,539)
Proceeds from sales of tangible fixed assets	421	-	-
Net cash provided by/(used in) investing activities	(304,944)	163,656	1,735,483
<b>III Cash flows from financing activities</b>			
Payment to national treasury	-	(350,000)	(3,711,559)
Revenue from contributions made from municipally operated racing	3,830	3,763	39,913
Net cash provided by/(used in) financing activities	3,830	(346,236)	(3,671,646)
<b>IV Effect of exchange rate changes on cash and cash equivalents</b>	-	-	-
<b>V Net increase/(decrease) in cash and cash equivalents</b>	(344,382)	247,017	2,619,486
<b>VI Cash and cash equivalents at beginning of year</b>	516,633	172,250	1,826,618
<b>VII Cash and cash equivalents at end of year</b>	¥172,250	¥419,267	\$4,446,104

See notes to financial statements.

## Notes to Financial Statements

### 1. Basis of Presentation

Japan Finance Organization for Municipalities (hereinafter, "JFM") has prepared financial statements in accordance with the Japan Finance Organization for Municipalities Law (Law No. 64, 2007; hereinafter the "Law"), the ordinances based on the Law and other regulations applicable to JFM and accounting principles generally accepted in Japan.

Since JFM does not have any subsidiaries or affiliates, it does not prepare consolidated financial statements.

Amounts less than one million yen have been omitted. As a result, the totals in Japanese yen shown in the financial statements do not necessarily agree with the sum of the individual amounts.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate as of 31 March 2013, the final day of the fiscal year, which was ¥94.30 to U.S. \$1. The approximate rate of exchange prevailing at 21 May 2013 was ¥102.77 to U.S. \$1. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such rate.

### 2. Summary of Significant Accounting Policies

#### (1) Securities

Held-to-maturity securities are carried at amortized cost (straight-line method).

#### (2) Derivative transactions

Derivative transactions are carried at fair value with changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for hedge accounting.

#### (3) Depreciation and amortization

##### (a) Tangible fixed assets

Depreciation of tangible fixed assets is calculated by the straight-line method based on the estimated useful lives and the residual value determined by management. The estimated useful lives of major items are as follows:

Buildings: 20 to 47 years

Others: 2 to 19 years

##### (b) Intangible fixed assets

Amortization of intangible fixed assets is calculated by the straight-line method based on the estimated useful lives and the residual value determined by management. Software for internal use owned by JFM is amortized over 5 years.

#### (4) Deferred assets

Bond issuance costs are expensed in full when incurred.

#### (5) Translation of assets and liabilities denominated in foreign currencies into Japanese yen

Monetary assets and liabilities denominated in foreign currencies, for which foreign currency swaps or foreign exchange forward contracts are used to hedge the foreign currency fluctuation, are translated at the contracted rate as these swap contracts or the forward contracts qualify for deferral hedge accounting.

#### (6) Reserves

##### (a) Reserve for possible loan losses

JFM has never experienced any loan losses. Accordingly, no reserve for possible loan losses has been maintained.

##### (b) Reserve for bonuses

The reserve for bonuses is provided for payment of bonuses to employees, in the amount of estimated bonuses, which are attributable to the fiscal year.

##### (c) Reserve for directors' bonuses

The reserve for directors' bonuses is provided for payment of bonuses to directors, in the amount of estimated bonuses, which are attributable to the fiscal year.

##### (d) Reserve for retirement benefits

The reserve for retirement benefits is provided for payment of retirement benefits to employees, in the amount deemed accrued at the fiscal year-end, based on the projected retirement benefit obligation and fair value of plan assets at the fiscal year-end.

##### (e) Reserve for retirement benefits for directors and corporate auditors

The reserve for retirement benefits for directors and corporate auditors is provided for payment of retirement benefits to directors and corporate auditors, in the amount deemed accrued at the fiscal year-end based on the internal policies.

#### (7) Hedge accounting

##### (a) Hedge accounting method

Interest rate swaps used to hedge the risk of interest rate fluctuations that qualify for hedge accounting and meet specific matching criteria are not measured at fair value, but the differential paid or received under the

swap agreements is recognized and included in interest expense or income. If swap contracts or forward contracts used to hedge the risk of foreign currency fluctuation qualify for deferral hedge accounting, the foreign currency-denominated assets and liabilities are translated at the contracted rate.

(b) Hedging instruments and hedged items

(i) Hedging instruments . . . Interest rate swaps

Hedged items . . . . . Bonds and borrowed money

(ii) Hedging instruments . . . Currency swaps

Hedged items . . . . . Foreign currency-denominated bonds

(iii) Hedging instruments . . . Foreign exchange forward contracts

Hedged items . . . . . Receipt of interest and principal of foreign currency-denominated bank deposits

(c) Hedging policy

JFM uses hedging instruments as a means of hedging exposure to interest rate risk and foreign exchange risk. Hedged items are identified by each individual contract.

As a means of hedging foreign exchange fluctuation risks associated with the receipt of interest and principal of foreign currency-denominated bank deposits, a foreign exchange forward contract is entered into at the time of each deposit by JFM.

(d) Assessment of hedge effectiveness

JFM ensures hedging instruments and hedged items have the same major terms when entering into hedge transactions to offset bond and borrowed money market fluctuation risks. Accordingly, JFM deems these to be highly effective and thus does not assess effectiveness. Moreover, a periodic assessment of hedge effectiveness for interest rate swaps, currency swaps and forward contracts that qualify for deferral hedge accounting is omitted when the exceptional accrual method is applied.

(8) Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows consist of "Cash and bank deposits" on the balance sheets.

(9) Fund for lending rate reduction

In accordance with the provisions of Article 46, Section 1 of the Law, JFM has established the fund for lending rate reduction to reserve contributions as stipulated in Article 32-2 of the Local Finance Law (Law No. 109, 1948). Also, pursuant to the provisions of Article 46, Section 5 of the Law, income arising from the investment of the fund (hereinafter, "investment income") is used to reduce interest rates of the loans to municipalities, and if there is any surplus in the investment income after this interest rate reduction process, the surplus amount is added to the fund. Further, pursuant to the provisions of Article 46, Section 6 of the Law, if there is any shortfall after the interest rate reduction process, the shortfall is covered by withdrawal of the fund within the limits of the total of the additional portion to the fund made up to the previous fiscal year and the contributions made in the most current fiscal year.

(10) Reserve for interest rate volatility and management account reserve for interest rate volatility

The reserve for interest rate volatility is set aside to prepare for interest rate risk associated with refinancing of JFM bonds (excluding the bonds issued by the former Japan Finance Corporation for Municipal Enterprises; hereinafter, the "Predecessor") pursuant to the provisions of Article 38, Sections 1 and 3 of the Law, and Article 9, Section 8 of the Supplementary Provisions of the Law, and is calculated and accounted for based on the provisions of Article 34 of the Ministerial Ordinance on Finance and Accounting of Japan Finance Organization for Municipalities (Ordinance No. 87 of the Ministry of Internal Affairs and Communications, 2008; hereinafter, "Ordinance on Finance and Accounting") and Article 22 of the Government Ordinance on preparation of relevant government ordinances and provisional measures for the abolishment of the Japan Finance Corporation for Municipal Enterprises Law (Government Ordinance No. 226, 2008; hereinafter, "Preparation Ordinance").

The management account reserve for interest rate volatility is set aside to manage interest rate risk associated with refinancing of bonds issued by the Predecessor pursuant to the provisions of Article 9, Sections 9 and 10, and Article 13, Sections 5 and 7 of the Supplementary Provisions of the Law, and is calculated and accounted for based on the provisions of Articles 1 through 3 of the Ministerial Ordinance on the operations of the Management Account at Japan Finance Organization for Municipal Enterprises (Ordinance No. 2 of the Ministry of Internal Affairs and Communication, and the Ministry of Finance, 2008; hereinafter, "Management Account Operations Ordinance") and Articles 3 and 5 of the Supplementary Provisions of the above ordinance.

(11) Reserve for interest rate reduction

Reserve for interest rate reduction is set aside to reduce interest rates on the loans made by the Predecessor to local governments pursuant to the provisions of Article 9, Section 13, and Article 13, Section 8 of the Supplementary Provisions of the Law, and Article 26, Sections 1, 3 and 4 of the Preparation Ordinance, and is calculated and accounted for based on the provisions of Article 5 of the Management Account Operations Ordinance.

(12) Management account surplus reserve

Profits generated in the management account are accounted for as the management account surplus reserve separately from retained earnings in accordance with the provisions of Article 13, Section 8 of the Supplementary Provisions of the Law and Article 26, Section 2 of the Preparation Ordinance.

(13) Consumption taxes

National and local consumption taxes are accounted for using the tax exclusion method.

### 3. Accounting Standards Issued but Not Yet Effective

“Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan (ASBJ) Statement No. 26, issued 17 May 2012) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, issued 17 May 2012)

(1) Overview

In light of improvements to financial reporting and international convergence, the accounting standards have been revised, mainly focusing on (a) how unrecognized actuarial gains and losses and unrecognized past service costs should be accounted for, (b) how retirement benefit obligations and current service costs should be determined and (c) enhancement of disclosures.

(2) Date of Adoption

JFM will adopt the accounting standards as of the end of the fiscal year commencing on 1 April 2013.

(3) Impact of adoption of the accounting standards

JFM is currently evaluating the impact of the adoption of the accounting standards on its financial statements.

### 4. Additional Information

Payment to national treasury

In accordance with Article 14 of the Supplementary Provisions to the Law, a portion of JFM's management account reserve for interest rate volatility is being attributed to the Japanese national government over a period of three years from fiscal 2012 through fiscal 2014, with the aim of transferring 1 trillion yen. In fiscal 2013, 650 billion yen is planned to be transferred to the national treasury by JFM, based on an ordinance pursuant to Article 14 of the Supplementary Provisions to the Law for fiscal 2013 (Ordinance No. 1 of the Ministry of Internal Affairs and Communication, and the Ministry of Finance, 2013). (In fiscal 2012, 350 billion yen (3,712 million U.S. dollars) was transferred.)

### 5. Loans

There are no bankrupt loans, non-accrual loans, past due loans (three months or more), or restructured loans. Since JFM has never experienced loan losses in the past, it does not record a reserve for possible loan loss.

Bankrupt loans represent loans to borrowers as defined in Articles 96, Section 1, Clause 3 (a) through (e) and Clause 4 of the Enforcement Ordinance of the Corporate Income Tax Law (Government Ordinance No. 97, 1965), and on which accrued interest is not accounted in revenue as there is no expectation of collection of either principal or interest because they are past due for a considerable period of time or for other reasons (excluding loans on which bad debts are written off; hereinafter, “Non-accrual loans”).

Non-accrual loans represent loans on which accrued interest is not accounted in revenue, excluding loans to bankrupt borrowers and loans with grace periods for interest payments to assist in corporate reorganization or to support business.

Past due loans (three months or more) represent loans on which payment of principal or interest is in arrears for more than three months, calculated from the day following the contractual due date, excluding bankrupt loans and non-accrual loans.

Restructured loans represent loans, given certain favorable terms and conditions, such as reduction or exemption of interest, grace periods for interest or principal payments, and debt waivers, to assist borrowers in corporate rehabilitation or to support business, excluding bankrupt loans, non-accrual loans and past due loans (three months or more).

### 6. Transfer to the National Treasury of a Portion of JFM's Management Account Reserve for Interest Rate Volatility

In accordance with the Supplementary Provisions to the Law, a portion of JFM's management account reserve for interest rate volatility is being attributed to the Japanese national government over a period of three years from fiscal 2012 through fiscal 2014, with the aim of transferring 1 trillion yen over this period.

In fiscal 2012, 350,000 million yen (3,712 million U.S. dollars) has been transferred to the national treasury by JFM, pursuant to Article 14 of the Supplementary Provisions to the Law for fiscal 2012 (Ordinance No. 2 of the Ministry of Internal Affairs and Communication, and the Ministry of Finance, 2012).

### 7. Financial Instruments

(1) Status of financial instruments

(a) Policy for financial instruments

In order to maintain a sound and good financial standing, as well as the solid confidence of capital markets, JFM needs to appropriately manage various risks including interest rate risks.

JFM adopts an integrated risk management approach to appropriately respond to various risks while endeavoring to further advance its risk analysis and management.

Accordingly, JFM has developed a system for appropriate risk management, including the establishment of the Integrated Risk Management Committee, which supervises JFM's overall risk management, and the Risk

Management Office, which monitors the risks in each department. The content of risk management can then be appropriately reflected in management decisions.

(b) Details and risks of financial instruments

JFM raises funds by primarily issuing 10-year bonds, and makes loans with a maximum maturity of 30 years and with repayment of interest and principal in equal installments. Therefore, a large duration gap is created between lending and funding, and JFM is exposed to the interest rate risk associated with bond and borrowed money refinancing.

JFM has set aside reserves for interest rate fluctuations (the reserve for interest rate volatility), and has set up the ALM Committee separately from the Integrated Risk Management Committee to comprehensively analyze and manage JFM's assets and liabilities in a timely and appropriate manner. The ALM Committee is held four times a year in principle. At the meeting, medium- and long-term management analysis as well as risk analysis and evaluation are conducted through scenario analysis, VaR analysis, and duration analysis, among other methods. In addition, JFM reflects the findings in its bond issuance plans and other aspects of management and endeavors to reduce interest rate risk.

(c) Risk Management for Financial Instruments

(i) Credit risk

Credit risk is the risk of loss arising from a credit event, such as deterioration in the financial condition of a borrower, which causes an asset to lose value or become worthless. In addition to credit risk associated with loans, market transactions also involve credit risk.

A. Credit risk on loans

JFM extends loans exclusively to local governments. Local governments have a zero Bank of International Settlements (BIS) risk weighting and JFM does not expect any default on loans made to local governments for the reasons outlined below. JFM and the Predecessor have never experienced any loan losses.

- The national government of Japan includes principal and interest payments of local government bonds and loans in the expenditure of the Local Government Finance Program, and secures the total amount of local allocation tax which balances local governments' total expenditures including principal and interest payments, and total revenue. Thus, the national government effectively secures revenue sources for principal and interest payments by local governments. The national government also secures revenue sources for principal and interest payments by individual local governments by including a portion of such principal and interest in the Standard Financial Needs when calculating local allocation tax.
- Under the consultation system for local government bonds and loans, credit reviews must include checks on the repayment status of local governments, and tax revenue and necessary revenue sources to be secured. Additionally, under the Early Warning System, the local governments whose principal and interest payments or financial deficits exceed a certain level must apply for approval to issue bonds or obtain loans, so that the credit standing of local government bonds and loans is maintained.
- Under the Law Relating to the Financial Soundness of Local Governments, which was promulgated in June 2007 (No.94), local governments whose fiscal indicators exceed the early warning limits must make their own efforts toward achieving fiscal soundness, and local governments whose fiscal indicators exceed the reconstruction limits must take necessary actions to restore their finances under the supervision of the national government or the respective prefectural governments with regard to redemption of local government bonds and loans, and other operations.
- JFM is not subject to the "Banking Law" (1981, No. 59) or the "Financial Reconstruction Law" (1998, No. 132) but performs self-assessment of loans in accordance with the "Financial Inspection Manual" of the Financial Services Agency (FSA).

B. Credit risk on transactions

JFM is exposed to the risk of loss arising from credit events, such as deterioration in the financial condition of a counterparty, which causes an asset to lose value or become worthless. However, JFM appropriately manages credit risk of this type by constantly monitoring counterparties' financial standing, taking measures including suspension of new deals and cancellation of transactions in case of a deterioration of their credit standings. Moreover, JFM limits counterparties to financial institutions that achieve a certain credit rating and other criteria, and conducts transactions within the credit lines for each counterparty in order to diversify risks. In addition, JFM enters into ISDA (International Swaps and Derivatives Association) Master Agreements and CSA (Credit Support Annex) with all derivatives counterparties to reduce credit risk.

(ii) Market risk

Market risk is the risk of loss resulting from changes in the value of assets and liabilities due to fluctuations in risk factors such as interest rates, securities prices and foreign exchange rates, or the risk of loss resulting from changes in earnings generated from assets and liabilities. Market risk includes interest rate risk, foreign exchange risk, inflation risk and price change risk.

#### A. Interest rate risk

Interest rate risk is the risk of losses incurred or a decrease in profits due to fluctuations in interest rates when there is an interest rate or duration gap between assets and liabilities. JFM makes loans to local governments. The maximum term to maturity is 30 years, but the majority of the funds for these loans are raised mainly through issuance of 10-year bonds, which creates interest rate risk associated with bond refinancing. JFM takes the following measures to address the interest rate risk resulting from a duration gap between lending and funding.

- JFM maintains necessary reserves to cope with the interest rate risk resulting from a duration gap between lending and funding.
- As assets and liabilities in JFM's general account will expand as a result of lending to local governments and funding, JFM carries out an ALM analysis of this account in a timely and appropriate manner to further enhance the effectiveness of its management of interest rate risk. JFM also endeavors to reduce exposure to interest rate risk by setting the following medium-term management target, such as continuously issuing super-long bonds with maturities exceeding 10 years.

##### a. Maintain the "outlier ratio" below approximately 20%.

Notes: 1. "Outlier ratio" is the ratio of "decline in economic value" as a result of interest rate shocks to net assets including reserves for interest rate volatility and the fund for lending rate reduction.

2. "Decline in economic value" is the decline of present value after interest rate shocks (an upward or downward 200 bp parallel shift of the yield curve).

##### b. Maintain a duration gap of less than approximately 2 years.

The management account, which manages assets related to money loaned by the Predecessor, is currently exposed to greater interest rate risk than the general account, but JFM contributes to the required reserves for interest rate volatility as described above.

In accordance with Article 14 of the Supplementary Provisions to the Law, it was decided that a portion of JFM's reserves for interest rate volatility within the management account would be attributed to the Japanese national government. The transfer is projected to occur over a period of three years from fiscal 2012 through fiscal 2014, with the aim of transferring 1 trillion yen over this period.

JFM is also exposed to pipeline risk, whereby losses would be incurred or profits decreased as a result of interest rate fluctuations during the time from when JFM raises money until the point at which the money is loaned to local governments. JFM uses swap transactions to hedge against pipeline risk.

#### B. Foreign exchange and other risks

Various risks associated with bond principal and interest payments are hedged by swap transactions. These risks include foreign exchange risk related to foreign currency-denominated bonds, interest rate risk related to floating rate bonds, and risk of fluctuations in the amounts of principal and interest of inflation-indexed bonds.

JFM's investments of surplus funds are exposed to the risk of losses on the sale of securities resulting from price declines and the risk of realized losses on foreign currency-denominated deposits resulting from fluctuations in foreign exchange rates. Accordingly, in principle, JFM minimizes the risk of price fluctuation by holding investments until maturity, and hedges foreign exchange risk by using foreign exchange contracts.

#### C. Quantitative information on market risk

Loans, bonds and borrowed money are primarily affected by interest rate risk, which is a major risk variable among the market risks.

With respect to general account loans, bonds and borrowed money, JFM establishes a management target and uses the outlier ratio for quantitative analysis in the management of interest rate risk.

Specifically, JFM is attempting to maintain the outlier ratio below approximately 20% by means of issuing bonds of various terms, including super long-term bonds, which have a redemption period of over 10 years, considering the composition of the remaining periods of the bonds held.

The outlier ratio is calculated based on the following conditions.

##### • Future Cash Flows

With respect to loans, future cash flows regarding such loans are calculated based on the type of interest rate of the loans. In addition, the advanced redemption in the future is not expected by JFM.

With respect to fixed-rate bonds, future cash flows regarding such fixed-rate bonds are calculated based on the redemption schedule. With respect to floating rate bonds hedged by interest rate swaps, that qualify for hedge accounting and meet specific matching criteria, future cash flows corresponding to such floating rate bonds are calculated in a manner similar to fixed-rate bonds.

##### • Indicative Interest Rate

For the assessment of loans, bonds and borrowed money, the corresponding interest rate of Japanese government bonds as of 31 March 2013 is used.



- Calculation of Outlier Ratio

Based on an assumption that risk variables, except for interest rate risk, are fixed as of 31 March 2013, the outlier ratio is calculated by dividing the change in fair value in the case where the indicative interest rate (government bonds) rises across-the-board by 200 basis points (2.00%) or the change in fair value in the case such rate falls across-the-board by 200 basis points (2.00%), whichever is greater, by net assets including the reserve for interest rate volatility and the fund for lending rate reduction.

Information the outlier ratio as of 31 March 2013, is as follows:

One outlier ratio reflecting a rise of 200 basis points of the indicative interest rate is calculated as JFM has determined that the change in fair value in the case of rising interest rates would be greater than that in the case of falling interest rates.

(Millions of yen) (Millions of U.S. dollars)

	Outlier ratio (a)=- (b)/(e)	Change in fair value in the case of 200 basis points rise in interest rates						Net assets including reserve for interest rate volatility and the fund for lending rate reduction (e)	
		Total (b)=(c)+(d)		Loans (c)		Bonds and borrowed money (d)			
General account	20.3% [+2.8%]	¥(422,786) [(100,794)]	\$(4,483) [(1,069)]	¥(1,325,953) [(327,039)]	\$(14,061) [(3,468)]	¥+903,166 [+226,244]	\$+9,578 [+2,399]	¥2,082,422 [+242,521]	\$22,083 [+2,572]

Note: Amounts posted in square brackets indicate the change from 31 March 2012.

With respect to loans and bonds in the management account, JFM raises funds by the issuance of bonds as necessary in order to manage existing loans until their redemption. For this reason, while JFM reports the calculation results of the quantitative information regarding the interest rate risk to the ALM Committee and confirms the status or transition, etc. of interest rate risk, JFM does not establish a management target or use the quantitative analysis in the management of interest rate risk.

With respect to these financial instruments in the management account, based on an assumption that the risk variables, except for interest rate risk, hold steady, for an indicative interest rate as of 31 March 2013 that is 10 basis points higher than the actual rate, it is assumed that the fair value of the net amount (assets side), after offsetting such financial instruments with the financial liabilities, would decline by 55,502 million yen (589 million U.S. dollars). On the contrary, for an indicative interest rate as of 31 March 2013 that is 10 basis points lower than the actual rate, it is assumed that the fair value of the net amount (assets side), after offsetting such financial instruments with the financial liabilities, would increase by 56,639 million yen (601 million U.S. dollars).

(iii) Liquidity risk

Liquidity risk is the risk that JFM would incur losses due to difficulties in securing the necessary funds or the necessity of obtaining funds at far higher interest rates than under normal conditions as a result of a mismatch between the maturities of assets and liabilities or an unexpected outflow of funds (funding liquidity risk). It also includes the risk that JFM would incur losses because it is unable to conduct market transactions or is forced to conduct transactions at far more unfavorable prices than under normal conditions due to market disruption or other difficult situations (market liquidity risk).

JFM's exposure to liquidity risk is extremely low because loans are made to local governments according to a pre-set schedule, and the daily cash and liquidity management is carried out based on a quarterly plan for fund management. Moreover, JFM has entered into overdraft agreements with several financial institutions to prepare for the unexpected events, and invests surplus funds only in short-term financial products.

(iv) Supplemental remarks on fair value of financial instruments

In addition to the amount based on the market price, the fair value of illiquid financial instruments includes a value that has been rationally calculated. Since certain assumptions were made when calculating the fair value, the value may differ in the event that the assumptions change.

(2) Items related to fair value of financial instruments

The book value, fair value and difference between them as of 31 March 2012 are as follows.

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans	¥22,387,411	¥23,797,792	¥1,410,381
(2) Securities held-to-maturity securities	762,987	762,979	(8)
(3) Cash and bank deposits	172,250	172,250	-
Total assets	23,322,648	24,733,021	1,410,373
(1) Bonds	18,176,696	18,890,039	713,343
(2) Borrowed money	30,000	30,072	72
Total liabilities	18,206,696	18,920,112	713,416
Derivative transactions(*1) Hedge accounting applied	222	222	-
Total of derivative transactions	222	222	-

The book value, fair value and difference between them as of 31 March 2013 are as follows.

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans	¥22,668,634	¥24,537,510	¥1,868,876
(2) Securities held-to-maturity securities	598,994	598,995	0
(3) Cash and bank deposits	419,267	419,267	-
Total assets	23,686,896	25,555,773	1,868,877
(1) Bonds	18,676,401	19,632,909	956,508
(2) Borrowed money	30,000	30,860	860
Total liabilities	18,706,401	19,663,770	957,369
Derivative transactions(*1) Hedge accounting applied	240	240	-
Total of derivative transactions	240	240	-

(Thousands of U.S. dollars)

	Book value	Fair value	Difference
(1) Loans	\$240,388,489	\$260,206,902	\$19,818,413
(2) Securities held-to-maturity securities	6,352,012	6,352,020	8
(3) Cash and bank deposits	4,446,104	4,446,104	-
Total assets	251,186,605	271,005,026	19,818,421
(1) Bonds	198,053,033	208,196,287	10,143,254
(2) Borrowed money	318,134	327,256	9,122
Total liabilities	198,371,167	208,523,543	10,152,376
Derivative transactions(*1) Hedge accounting applied	2,545	2,545	-
Total of derivative transactions	2,545	2,545	-

(\*1) Assets and liabilities resulting from derivative transactions are presented on a net basis with liabilities in parentheses.



Note 1. Method for calculating fair value of financial instruments and items related to marketable securities and derivative transactions

#### Assets

##### (1) Loans

The fair value of loans is calculated by discounting future cash flows assuming prepayment at the discount rate calculated using the Japanese government bond rates as of 31 March 2012 and 2013.

##### (2) Securities

All bonds are held until maturity, and the fair value of treasury discount bills is the market price.

Since all negotiable certificates of deposit are short-term, the fair value approximates the book value. As a result, the book value is deemed to be the fair value.

As of 31 March 2012

(Millions of yen)

	Type	Book value	Fair value	Difference
Securities with fair values exceeding the balance sheet amount	-	¥-	¥-	¥-
	Sub total	-	-	-
Securities with fair values that do not exceed the balance sheet amount	Treasury discount bills	96,987	96,979	(8)
	Negotiable certificates of deposit	666,000	666,000	-
	Sub total	762,987	762,979	(8)
Total		¥762,987	¥762,979	¥(8)

As of 31 March 2013

(Millions of yen)

	Type	Book value	Fair value	Difference
Securities with fair values exceeding the balance sheet amount	Treasury discount bills	¥44,994	¥44,995	¥0
	Sub total	44,994	44,995	0
Securities with fair values that do not exceed the balance sheet amount	Negotiable certificates of deposit	554,000	554,000	-
	Sub total	554,000	554,000	-
Total		¥598,994	¥598,995	¥0

(Thousands of U.S. dollars)

	Type	Book value	Fair value	Difference
Securities with fair values exceeding the balance sheet amount	Treasury discount bills	\$477,145	\$477,153	\$8
	Sub total	477,145	477,153	8
Securities with fair values that do not exceed the balance sheet amount	Negotiable certificates of deposit	5,874,867	5,874,867	-
	Sub total	5,874,867	5,874,867	-
Total		\$6,352,012	\$6,352,020	\$8

##### (3) Cash and bank deposits

The book value is used as the fair value for deposits without maturities. Since all deposits with maturities are short-term, the fair value approximates the book value. As a result, the book value is deemed to be the fair value.

## **Liabilities**

### **(1) Bonds**

The fair value of bonds issued by JFM that have a market price is based on the market price. The fair value of bonds without a market price is calculated by discounting the future cash flows using the interest rate that would be applied when issuing similar bonds with the same total principal and interest and payment term.

Deferral hedge accounting is used for currency swaps, and the fair value of foreign currency-denominated bonds is thus calculated using the total of the fair value of that bond and the fair value of the swap transaction.

Hedge accounting is used for interest rate swaps, and the fair value of floating rate bonds is thus calculated by determining the current value using the total of the corresponding interest rate swap accounted for together with the principal and interest and discounting the future cash flows using the interest rate that would be applied when issuing a similar bond.

### **(2) Borrowed money**

The fair value of borrowed money is calculated by discounting the future cash flows using the interest rate that would presumably be applied when issuing bonds with the same total principal and interest and payment term.

## **Derivative transactions**

Transactions for which hedge accounting is applied

For derivative transactions for which hedge accounting is applied, the contractual amount or the amount equivalent to the principal in the contract under each hedge accounting method as of 31 March 2012 is as follows:

(Millions of yen)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount		Fair value	Method for calculating fair value
				Of which 1 year or more		
Principal accounting method	Interest rate swap transactions Receive/fixed and pay/floating	Bonds Borrowed money	¥44,500	¥44,500	¥222	Based on prices provided by the counterparty financial institution
Hedge accounting for interest rate swaps	Interest rate swap transactions Receive/floating and pay/fixed	Bonds	95,000	95,000	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	551,494	551,494	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	125,000	-	(*2)	
Total			¥815,994	¥690,994	¥222	

For derivative transactions for which hedge accounting is applied, the contractual amount or the amount equivalent to the principal in the contract under each hedge accounting method as of 31 March 2013 is as follows:

(Millions of yen)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount		Fair value	Method for calculating fair value
				Of which 1 year or more		
Principal accounting method	Interest rate swap transactions Receive/fixed and pay/floating	Bonds Borrowed money	¥40,000	¥40,000	¥240	Based on prices provided by the counterparty financial institution
Hedge account for interest rate swaps	Interest rate swap transactions Receive/floating and pay/fixed	Bonds	95,000	95,000	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	774,751	774,751	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	120,000	-	(*2)	
Total			¥1,029,751	¥909,751	¥240	

(Thousands of U.S. dollars)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount		Fair value	Method for calculating fair value
				Of which 1 year or more		
Principal accounting method	Interest rate swap transactions Receive/fixed and pay/floating	Bonds Borrowed money	\$424,178	\$424,178	\$2,545	Based on prices provided by the counterparty financial institution
Hedge account for interest rate swaps	Interest rate swap transactions Receive/floating and pay/fixed	Bonds	1,007,423	1,007,423	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	8,215,817	8,215,817	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	1,272,535	-	(*2)	
Total			\$10,919,953	\$9,647,418	\$2,545	

(\*1) Since interest rate swaps for which hedge accounting is applied are accounted for together with the bond being hedged, the fair value is presented together with the fair value of the relevant bond.

(\*2) Since currency swaps and foreign exchange contracts for which deferral hedge accounting is applied are accounted for together with the foreign currency-denominated bond or foreign currency-denominated deposit being hedged, the fair value is presented together with the fair value of the relevant hedged item.

Note 2. The repayment schedule for monetary claims and securities with maturities is as follows:

As of 31 March 2012

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years
Loans	¥1,555,010	¥1,552,019	¥1,548,246	¥1,540,203	¥1,481,212	¥6,369,714	¥6,939,819	¥1,401,184
Securities held-to- maturity securities	762,987	-	-	-	-	-	-	-
Deposits	172,249	-	-	-	-	-	-	-

As of 31 March 2013

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years
Loans	¥1,584,836	¥1,567,116	¥1,589,729	¥1,547,561	¥1,477,282	¥6,486,636	¥6,953,013	¥1,462,458
Securities held-to- maturity securities	599,000	-	-	-	-	-	-	-
Deposits	419,267	-	-	-	-	-	-	-

(Thousands of U.S. dollars)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years
Loans	\$16,806,325	\$16,618,413	\$16,858,218	\$16,411,044	\$15,665,771	\$68,787,234	\$73,732,907	\$15,508,578
Securities held-to- maturity securities	6,352,068	-	-	-	-	-	-	-
Deposits	4,446,104	-	-	-	-	-	-	-

Note 3. The repayment schedule is as follows:

As of 31 March 2012

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years
Bonds Borrowed money	¥2,030,560 -	¥2,164,070 -	¥1,931,670 -	¥1,680,970 -	¥1,560,228 -	¥7,058,245 30,000	¥1,549,120 -	¥220,000 -

As of 31 March 2013

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years
Bonds Borrowed money	¥2,164,070 -	¥1,931,670 -	¥1,680,970 -	¥1,780,228 -	¥1,626,489 -	¥7,572,183 30,000	¥1,718,450 -	¥217,000 -

(Thousands of U.S. dollars)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years
Bonds Borrowed money	\$22,948,780 -	\$20,484,305 -	\$17,825,769 -	\$18,878,356 -	\$17,248,031 -	\$80,298,869 318,134	\$18,223,224 -	\$2,301,166 -

## 8. Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets as of 31 March 2012 consisted of the following:

(Millions of yen)

Type of assets	Balance as of 1 April 2011 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2012 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2012	Depreciation and amortization during the year	Balance as of 31 March 2012 (Net book value)
Tangible fixed assets							
Buildings	¥568	¥95	¥10	¥652	¥149	¥43	¥502
Land	2,403	-	408	1,994	-	-	1,994
Other tangible fixed assets	140	36	74	102	37	25	65
Total tangible fixed assets	3,111	131	493	2,750	186	68	2,563
Intangible fixed assets							
Software	1,332	118	74	1,376	776	274	600
Other intangible fixed assets	0	-	-	0	-	-	0
Total intangible fixed assets	¥1,332	¥118	¥74	¥1,376	¥776	¥274	¥600

Tangible and intangible fixed assets as of 31 March 2013 consisted of the following:

(Millions of yen)

Type of assets	Balance as of 1 April 2012 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2013 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2013	Depreciation and amortization during the year	Balance as of 31 March 2013 (Net book value)
Tangible fixed assets							
Buildings	¥652	¥451	¥-	¥1,104	¥195	¥46	¥908
Land	1,994	-	-	1,994	-	-	1,994
Other tangible fixed assets	102	24	12	114	53	20	61
Total tangible fixed assets	2,750	475	12	3,213	249	66	2,964
Intangible fixed assets							
Software	1,376	86	111	1,351	950	285	400
Other intangible fixed assets	0	482	-	482	-	-	482
Total intangible fixed assets	¥1,376	¥568	¥111	¥1,834	¥950	¥285	¥883

(Thousands of U.S. dollars)

Type of assets	Balance as of 1 April 2012 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2013 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2013	Depreciation and amortization during the year	Balance as of 31 March 2013 (Net book value)
Tangible fixed assets							
Buildings	\$6,920	\$4,792	\$-	\$11,712	\$2,074	\$488	\$9,638
Land	21,154	-	-	21,154	-	-	21,154
Other tangible fixed assets	1,090	255	131	1,214	567	218	647
Total tangible fixed assets	29,164	5,047	131	34,080	2,641	706	31,439
Intangible fixed assets							
Software	14,600	912	1,180	14,332	10,081	3,028	4,251
Other intangible fixed assets	1	5,119	-	5,120	-	-	5,120
Total intangible fixed assets	\$14,601	\$6,031	\$1,180	\$19,452	\$10,081	\$3,028	\$9,371

Notes: 1. Accumulated depreciation of tangible fixed assets amounted to 186 million yen and 249 million yen (2,642 thousand U.S. dollars) as of 31 March 2012 and 2013, respectively.

## 9. Assets Pledged as Collateral

- (1) Pursuant to the provisions of Article 40, Section 2 of the Law, JFM's total assets are pledged as general collateral for JFM bonds in the amounts of 18,176,696 million yen and 18,676,401 million yen (198,053,033 thousand U.S. dollars) as of 31 March 2012 and 2013, respectively.
- (2) Securities in the amounts of 469 million yen and 9,238 million yen (97,973 thousand U.S. dollars) are pledged as collateral for derivative transactions as of 31 March 2012 and 2013.

## 10. Bonds

Bonds as of 31 March 2012 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2011	Balance as of 31 March 2012	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-34)	6/15/2009-3/14/2012	¥1,330,908	¥1,841,660	0.9 to 1.5	10Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-4)	9/27/2011-3/26/2012	-	199,964	0.4	6Y
Government-guaranteed bonds issued by JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	83,170	83,170 [USD 1,000 million]	4.0	10Y
Non-government guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 1-8)	5/25/2010-2/20/2012	90,000	170,000	0.384 to 0.639	5Y
Non-government guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-34)	6/18/2009-3/19/2012	605,000	1,005,000	0.976 to 1.648	10Y
Non-government guaranteed bonds issued by JFM (domestic) 20-year bonds (Series 1-20)	6/25/2009-1/26/2012	355,000	525,000	1.752 to 2.266	20Y
Non-government guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F1-F52, F54-F109)	7/22/2009-3/28/2012	461,000	754,500	0.185 to 2.334	3Y to 30Y
Non-government guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53)	2/1/2011	15,000	15,000	Floating rate	9Y
Non-government guaranteed bonds issued by JFM (international) Private placements (Series 2, 3, 7, 14-16, 19, 28)	1/12/2012-3/13/2012	-	17,795 [USD 227 million]	1.84 to 2.40	5Y to 7Y
Non-government guaranteed bonds issued by JFM (international) Private placements (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27)	1/17/2012-3/13/2012	-	50,608 [USD 591 million] [NZD 40 million] [AUD 20 million]	Floating rate	5Y
Non-government guaranteed bonds issued by JFM (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A1-A26)	7/31/2009-3/19/2012	680,000	980,000	0.99 to 1.53	10Y
Bonds issued by JFM - Sub-total	-	3,620,078	5,642,699	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 4-year bonds (Series 1)	2/27/2009	299,917	299,962 (300,000)	0.7	4Y
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008-5/25/2009	560,362	560,636	1.3 to 1.6	10Y
Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 5-year bonds (Series 1)	2/24/2009	29,994	29,996	1.01	5Y
Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-4)	11/25/2008-5/28/2009	139,962	139,967	1.59 to 1.77	10Y
Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1, 2)	1/26/2009-4/30/2009	84,946	84,949	2.07 to 2.29	20Y

Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A1, A2)	4/30/2009-5/26/2009	120,000	120,000	1.69 to 1.73	10Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	1,235,183	1,235,513 (300,000)	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 801-886)	4/26/2001-6/19/2008	7,556,867	6,018,749 (1,108,390)	0.5 to 2.0	10Y
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005-7/18/2007	184,659	184,682	1.6 to 2.2	15Y
Government-guaranteed bonds issued by the Predecessor (international) Euro-sterling bonds (Series 4), Global-yen bonds (Series 5), etc.	8/9/1999-6/25/2008	923,913	723,848 [USD 2,200 million] [EUR 900 million] [GBP 150 million]	1.350 to 5.75	10Y to 20Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 5-year bonds (Series 1)	2/29/2008	129,976	129,989 (130,000)	1.14	5Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 1-30)	12/26/2001-6/16/2008	1,279,829	1,179,870 (250,000)	0.64 to 2.07	10Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002-6/16/2008	569,636	569,661	1.03 to 2.58	20Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 30-year bonds (Series 1-10)	1/29/2004-9/20/2006	189,855	189,861	2.39 to 2.95	30Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Floating rate bonds (Series 1)	10/31/2002	20,000	20,000	Floating rate	15Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Inflation-indexed bonds (Series 1, 2)	3/2/2005-7/19/2005	40,000	40,000	0.45 to 0.47	10Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003-6/9/2004	43,490	41,320 (2,170)	1.39 to 2.01	28Y
Non-government guaranteed bonds issued by the Predecessor (domestic) CMS-linked floating rate bonds (Series 1)	9/13/2006	20,000	20,000	Floating rate	10Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A-58, Series Special No.1-1-No.1-30)	7/31/2001-7/31/2008	2,513,700	2,180,500 (240,000)	0.67 to 2.18	10Y
Bonds issued by the Predecessor - Sub-total	-	13,471,927	11,298,483 (1,730,560)	-	-
Total	-	¥18,327,190	¥18,176,696 (2,030,560)	-	-

Notes:1. Pursuant to the provisions of Article 40, Section 2 of the Law, JFM's total assets are pledged as general collateral for JFM bonds in the amount of 18,176,696 million yen as of 31 March 2012.

2. Amounts in square brackets under "Balance as of 31 March 2012" for "Government-guaranteed bonds issued by JFM (international)—Global U.S. dollar bonds (Series 1)," "Non-government guaranteed bonds issued by JFM (international)—Private placements (Series 2, 3, 7, 14-16, 19, 28)," "Non-government guaranteed bonds issued by JFM (international)—Private placements (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27)" and "Government-guaranteed bonds issued by the Predecessor (international)—Euro-sterling bonds (Series 4), Global-yen bonds (Series 5), etc." are denominated in foreign currencies.

3. Amounts in parentheses under "Balance as of 31 March 2012" are to be repaid within one year.



Bonds as of 31 March 2013 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2012	Balance as of 31 March 2013	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-46)	6/15/2009-3/18/2013	¥1,841,660	¥2,332,567	0.668 to 1.5	10Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-8)	9/27/2011-1/29/2013	199,964	519,971	0.199 to 0.4	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 1-4)	5/28/2012-2/26/2013	-	220,000	0.093 to 0.151	4Y
Government-guaranteed bonds issued by JFM (international) Global U.S. dollar bond (Series 1)	1/13/2011	83,170	83,170 [USD 1,000 million]	4.0	10Y
Non-government guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 1-11)	5/25/2010-10/22/2012	170,000	230,000	0.230 to 0.639	5Y
Non-government guaranteed bonds issued by JFM (domestic) 7-year bonds (Series 1)	8/20/2012	-	20,000	0.446	7Y
Non-government guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-46)	6/18/2009-3/25/2013	1,005,000	1,490,000	0.678 to 1.648	10Y
Non-government guaranteed bonds issued by JFM (domestic) 15-year bonds (Series 1)	1/31/2013	-	15,000	1.334	15Y
Non-government guaranteed bonds issued by JFM (domestic) 20-year bonds (Series 1-27)	6/25/2009-1/28/2013	525,000	670,000	1.680 to 2.266	20Y
Non-government guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F1-F52, F54-F153)	7/22/2009-1/31/2013	754,500	1,003,000 (4,000)	0.185 to 2.334	3Y to 30Y
Non-government guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53)	2/1/2011	15,000	15,000	Floating rate	9Y
Non-government guaranteed bonds issued by JFM (international) Private placements (Series 2, 3, 7, 14-16, 19, 28, 31, 33, 34)	1/12/2012-3/25/2013	17,795	196,197 [USD 2,227 million] [AUD 100 million]	1.375 to 3.65	5Y to 7Y
Non-government guaranteed bonds issued by JFM (international) Private placements (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27, 29, 30, 32)	1/17/2012-11/7/2012	50,608	95,064 [USD 1,148 million] [NZD 40 million] [AUD 20 million]	Floating rate	5Y to 7Y
Non-government guaranteed bonds issued by JFM (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A1-A38)	7/31/2009-3/25/2013	980,000	1,280,000	0.69 to 1.53	10Y
Bonds issued by JFM - Sub-total	-	5,642,699	8,169,971 (4,000)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 4-year bonds (Series 1)	2/27/2009	299,962	-	0.7	4Y
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008-5/25/2009	560,636	560,911	1.3 to 1.6	10Y
Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 5-year bonds (Series 1)	2/24/2009	29,996	29,998 (30,000)	1.01	5Y
Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-4)	11/25/2008-5/28/2009	139,967	139,972	1.59 to 1.77	10Y

Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1, 2)	1/26/2009-4/30/2009	84,949	84,952	2.07 to 2.29	20Y
Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A1, A2)	4/30/2009-5/26/2009	120,000	120,000	1.69 to 1.73	10Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	1,235,513	935,835 (30,000)	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 814-886)	4/26/2002-6/19/2008	6,018,749	4,912,647 (1,395,900)	0.5 to 2.0	10Y
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005-7/18/2007	184,682	184,704	1.6 to 2.2	15Y
Government-guaranteed bonds issued by the Predecessor (international) Euro-sterling bonds (Series 4), Global-yen bonds (Series 5), etc.	8/9/1999-6/25/2008	723,848	724,131 (130,000) [USD 2,200 million] [EUR 900 million] [GBP 150 million]	1.35 to 5.75	10Y to 20Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 5-year bonds (Series 1)	2/29/2008	129,989	-	1.14	5Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 2-30)	6/27/2002-6/16/2008	1,179,870	929,908 (120,000)	0.64 to 2.07	10Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002-6/16/2008	569,661	569,686	1.03 to 2.58	20Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 30-year bonds (Series 1-10)	1/29/2004-9/20/2006	189,861	189,867	2.39 to 2.95	30Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Floating rate bonds (Series 1)	10/31/2002	20,000	20,000	Floating rate	15Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Inflation-indexed bonds (Series 1, 2)	3/2/2005-7/19/2005	40,000	40,000	0.45 to 0.47	10Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003-6/9/2004	41,320	39,150 (2,170)	1.39 to 2.01	28Y
Non-government guaranteed bonds issued by the Predecessor (domestic) CMS-linked bonds (Series 1)	9/13/2006	20,000	20,000	Floating rate	10Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Private placements with Pension Fund Association for Local Government Officials (Series Special No.1-1-No.1-31)	7/31/2002-7/31/2008	2,180,500	1,940,500 (482,000)	0.67 to 2.18	10Y
Bonds issued by the Predecessor - Sub-total	-	11,298,483	9,570,594 (2,130,070)	-	-
Total	-	¥18,176,696	¥18,676,401 (2,164,070)	-	-

(Thousands of U.S. dollars)

Type of bond	Date of issue	Balance as of 1 April 2012	Balance as of 31 March 2013	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-46)	6/15/2009-3/18/2013	\$19,529,799	\$24,735,605	0.668 to 1.5	10Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-8)	9/27/2011-1/29/2013	2,120,520	5,514,016	0.199 to 0.4	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 1-4)	5/28/2012-2/26/2013	-	2,332,980	0.093 to 0.151	4Y
Government-guaranteed bonds issued by JFM (international) Global U.S. dollar bond (Series 1)	1/13/2011	881,972	881,972 [USD 1,000 million]	4.0	10Y
Non-government guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 1-11)	5/25/2010-10/22/2012	1,802,757	2,439,024	0.230 to 0.639	5Y
Non-government guaranteed bonds issued by JFM (domestic) 7-year bonds (Series 1)	8/20/2012	-	212,089	0.446	7Y
Non-government guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-46)	6/18/2009-3/25/2013	10,657,476	15,800,636	0.678 to 1.648	10Y
Non-government guaranteed bonds issued by JFM (domestic) 15-year bonds (Series 1)	1/31/2013	-	159,067	1.334	15Y
Non-government guaranteed bonds issued by JFM (domestic) 20-year bonds (Series 1-27)	6/25/2009-1/28/2013	5,567,338	7,104,984	1.680 to 2.266	20Y
Non-government guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F1-F52, F54-F153)	7/22/2009-1/31/2013	8,001,060	10,636,267 (42,418)	0.185 to 2.334	3Y to 30Y
Non-government guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53)	2/1/2011	159,067	159,067	Floating rate	9Y
Non-government guaranteed bonds issued by JFM (international) Private placements (Series 2, 3, 7, 14-16, 19, 28, 31, 33, 34)	1/12/2012-3/25/2013	188,715	2,080,568 [USD 227 million] [AUD 100 million]	1.375 to 3.65	5Y to 7Y
Non-government guaranteed bonds issued by JFM (international) Private placements (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27, 29, 30, 32)	1/17/2012-11/7/2012	536,680	1,008,109 [USD 1,148 million] [NZD 40 million] [AUD 20 million]	Floating rate	5Y to 7Y
Non-government guaranteed bonds issued by JFM (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A1-A38)	7/31/2009-3/25/2013	10,392,365	13,573,701	0.69 to 1.53	10Y
Bonds issued by JFM - Sub-total	-	59,837,749	86,638,085 (42,418)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 4-year bonds (Series 1)	2/27/2009	3,180,938	-	0.7	4Y
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008-5/25/2009	5,945,249	5,948,162	1.3 to 1.6	10Y
Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 5-year bonds (Series 1)	2/24/2009	318,099	318,118 (318,133)	1.01	5Y
Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-4)	11/25/2008-5/28/2009	1,484,276	1,484,328	1.59 to 1.77	10Y

Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1, 2)	1/26/2009-4/30/2009	900,847	900,879	2.07 to 2.29	20Y
Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A1, A2)	4/30/2009-5/26/2009	1,272,534	1,272,534	1.69 to 1.73	10Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	13,101,943	9,924,021 (318,133)	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 814-886)	4/26/2002-6/19/2008	63,825,552	52,095,939 (14,802,757)	0.5 to 2.0	10Y
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005-7/18/2007	1,958,453	1,958,689	1.6 to 2.2	15Y
Government-guaranteed bonds issued by the Predecessor (international) Euro-sterling bonds (Series 4), Global-yen bonds (Series 5), etc.	8/9/1999-6/25/2008	7,676,023	7,679,017 (1,378,579) [USD 2,200 million] [EUR 900 million] [GBP 150 million]	1.35 to 5.75	10Y to 20Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 5-year bonds (Series 1)	2/29/2008	1,378,464	-	1.14	5Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 2-30)	6/27/2002-6/16/2008	12,511,887	9,861,171 (1,272,534)	0.64 to 2.07	10Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002-6/16/2008	6,040,948	6,041,210	1.03 to 2.58	20Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 30-year bonds (Series 1-10)	1/29/2004-9/20/2006	2,013,373	2,013,438	2.39 to 2.95	30Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Floating rate bonds (Series 1)	10/31/2002	212,089	212,089	Floating rate	15Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Inflation-indexed bonds (Series 1, 2)	3/2/2005-7/19/2005	424,178	424,178	0.45 to 0.47	10Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003-6/9/2004	438,176	415,164 (23,012)	1.39 to 2.01	28Y
Non-government guaranteed bonds issued by the Predecessor (domestic) CMS-linked bonds (Series 1)	9/13/2006	212,089	212,089	Floating rate	10Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Private placements with Pension Fund Association for Local Government Officials (Series Special No.1-1-No.1-31)	7/31/2002-7/31/2008	23,123,011	20,577,943 (5,111,347)	0.67 to 2.18	10Y
Bonds issued by the Predecessor - Sub-total	-	119,814,243	101,490,927 (22,588,229)	-	-
Total	-	\$192,753,935	\$198,053,033 (22,948,780)	-	-

Notes:1. Pursuant to the provisions of Article 40, Section 2 of the Law, JFM's total assets are pledged as general collateral for JFM bonds in the amount of 18,676,401 million yen (198,053,033 thousand U.S. dollars) as of 31 March 2013.

2. Amounts in square brackets under “Balance as of 31 March 2013” for “Government-guaranteed bonds issued by JFM (international)—Global U.S. dollar bonds (Series 1),” “Non-government guaranteed bonds issued by JFM (international)—Private placements (Series 2, 3, 7, 14-16, 19, 28, 31, 33, 34),” “Non-government guaranteed bonds issued by JFM (international)—Private placements (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27, 29, 30, 32)” and “Government-guaranteed bonds issued by the Predecessor (international)—Euro-sterling bonds (Series 4), Global-yen bonds (Series 5), etc.” are denominated in foreign currencies.
3. Amounts in parentheses under “Balance as of 31 March 2013” are to be repaid within one year.

## 11. Borrowed Money

Borrowed money as of 31 March 2012 consisted of the following:

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2011	Balance as of 31 March 2012	Average interest rate (%)	Repayment date
Short-term borrowed money	¥-	¥-	-	-
Long-term borrowed money (repayment within 1 year)	-	-	-	-
Long-term borrowed money (excluding repayment within 1 year)	-	30,000	0.69	3/26/2019
Other interest-bearing liabilities	-	-	-	-
Total	¥-	¥30,000	-	-

Borrowed money as of 31 March 2013 consisted of the following:

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2012	Balance as of 31 March 2013	Average interest rate (%)	Repayment date
Short-term borrowed money	¥-	¥-	-	-
Long-term borrowed money (repayment within 1 year)	-	-	-	-
Long-term borrowed money (excluding repayment within 1 year)	30,000	30,000	0.69	3/26/2019
Other interest-bearing liabilities	-	-	-	-
Total	¥30,000	¥30,000	-	-

(Thousands of U.S. dollars)

Classification of borrowed money	Balance as of 1 April 2012	Balance as of 31 March 2013	Average interest rate (%)	Repayment date
Short-term borrowed money	\$-	\$-	-	-
Long-term borrowed money (repayment within 1 year)	-	-	-	-
Long-term borrowed money (excluding repayment within 1 year)	318,134	318,134	0.69	3/26/2019
Other interest-bearing liabilities	-	-	-	-
Total	\$318,134	\$318,134	-	-

## 12. Reserves

Reserves as of 31 March 2012 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2011	Increase during the year	Decrease during the year		Balance as of 31 March 2012
			Intended purpose	Other	
Reserve for bonuses	¥41	¥47	¥41	¥-	¥47
Reserve for directors' bonuses	6	6	6	-	6
Reserve for retirement benefits	195	9	47	9	146
Reserve for retirement benefits for directors and corporate auditors	27	4	5	1	23

Reserves as of 31 March 2013 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2012	Increase during the year	Decrease during the year		Balance as of 31 March 2013
			Intended purpose	Other	
Reserve for bonuses	¥47	¥47	¥47	¥-	¥47
Reserve for directors' bonuses	6	5	6	-	5
Reserve for retirement benefits	146	5	10	-	141
Reserve for retirement benefits for directors and corporate auditors	23	5	1	-	27

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2012	Increase during the year	Decrease during the year		Balance as of 31 March 2013
			Intended purpose	Other	
Reserve for bonuses	\$508	\$498	\$508	\$-	\$498
Reserve for directors' bonuses	73	57	73	-	57
Reserve for retirement benefits	1,557	55	107	-	1,505
Reserve for retirement benefits for directors and corporate auditors	254	55	18	-	291

### 13. Reserve for Interest Rate Volatility

Reserve for interest rate volatility as of 31 March 2012 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2011	Increase during the year		Decrease during the year		Balance as of 31 March 2012
			Amount provided		Amount withdrawn	
Reserve for interest rate volatility	¥660,000	¥220,000	¥220,000	¥-		¥880,000
Management account reserve for interest rate volatility	3,136,532	221,024	221,024	220,000	220,000	3,137,557
Total	¥3,796,532	¥441,024	¥441,024	¥220,000	¥220,000	¥4,017,557

Reserve for interest rate volatility as of 31 March 2013 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2012	Increase during the year		Decrease during the year		Balance as of 31 March 2013
			Amount provided		Amount withdrawn	
Reserve for interest rate volatility	¥880,000	¥220,000	¥220,000	¥-		¥1,100,000
Management account reserve for interest rate volatility	3,137,557	203,643	203,643	570,000	220,000	2,771,200
Total	¥4,017,557	¥423,643	¥423,643	¥570,000	¥220,000	¥3,871,200

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2012	Increase during the year		Decrease during the year		Balance as of 31 March 2013
			Amount provided		Amount withdrawn	
Reserve for interest rate volatility	\$9,331,919	\$2,332,980	\$2,332,980	\$-		\$11,664,899
Management account reserve for interest rate volatility	33,272,079	2,159,530	2,159,530	6,044,539	2,332,980	29,387,070
Total	\$42,603,998	\$4,492,510	\$4,492,510	\$6,044,539	\$2,332,980	\$41,051,969

Notes:1. The “decrease during the year” for the “management account reserve for interest rate volatility” in the amount of 570,000 million yen (6,044,539 thousand U.S. dollars) partly consists of 350,000 million yen (3,711,559 thousand U.S. dollars) of the payment to the national treasury in accordance with an ordinance pursuant to Article 14 of the Supplementary Provisions to the Law for fiscal 2012 (Ordinance No. 2 of the Ministry of Internal Affairs and Communication, and the Ministry of Finance, 2012).

#### 14. Fund for Lending Rate Reduction

Fund for lending rate reduction as of 31 March 2012 consisted of the following:

(Millions of yen)

Classification of fund	Balance as of 1 April 2011	Increase during the year		Decrease during the year		Balance as of 31 March 2012
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	¥908,104	¥3,830	¥-	¥-	¥-	¥911,935
Additional fund for lending rate reduction	7,719	-	216	-	-	7,936
Total	¥915,823	¥3,830	¥216	¥-	¥-	¥919,871

Fund for lending rate reduction as of 31 March 2013 consisted of the following:

(Millions of yen)

Classification of fund	Balance as of 1 April 2012	Increase during the year		Decrease during the year		Balance as of 31 March 2013
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	¥911,935	¥3,763	¥-	¥-	¥-	¥915,698
Additional fund for lending rate reduction	7,936	-	-	1,066	-	6,869
Total	¥919,871	¥3,763	¥-	¥1,066	¥-	¥922,568

(Thousands of U.S. dollars)

Classification of fund	Balance as of 1 April 2012	Increase during the year		Decrease during the year		Balance as of 31 March 2013
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	\$9,670,574	\$39,913	\$-	\$-	\$-	\$9,710,487
Additional fund for lending rate reduction	84,158	-	-	11,306	-	72,852
Total	\$9,754,732	\$39,913	\$-	\$11,306	\$-	\$9,783,339

Notes:1. The “amount of reserve” in the “increase during the year” for the “basic fund for lending rate reduction” represents the payment of the amount stipulated in Article 46, Section 1 of the Law and received in accordance with Article 46, Section 2 of the Law.

2. The “amount withdrawn” in the “decrease during the year” for the “additional fund for lending rate reduction” represents the amount reduced in the fund for interest rate reduction pursuant to the provisions of Article 46, Section 6 of the Law.



## 15. Reserve for Employee Retirement Benefits

As of and for the year ended 31 March 2012

(1) Outline of retirement benefits system

JFM has a defined benefit plan that contributes to the Employees' Pension Fund and offers lump-sum payments upon retirement of employees.

(2) Projected benefit obligation

Projected benefit obligation 298 million yen

Plan assets 151 million yen

Reserve for employee retirement benefits 146 million yen

(3) Pension expenses

Pension expenses 9 million yen

Pension expenses related to lump-sum payments upon retirement 4 million yen

Pension expenses related to the Employees' Pension Fund 5 million yen

(4) Basis of calculation of projected benefit obligation

Projected benefit obligation is calculated by the simplified method.

As of and for the year ended 31 March 2013

(1) Outline of retirement benefits system

JFM has a defined benefit plan that contributes to the Employees' Pension Fund and offers lump-sum payments upon retirement.

(2) Projected benefit obligation

Projected benefit obligation 318 million yen (3,373 thousand U.S. dollars)

Plan assets 176 million yen (1,868 thousand U.S. dollars)

Reserve for employee retirement benefits 141 million yen (1,505 thousand U.S. dollars)

(3) Pension expenses

Pension expenses 5 million yen (54 thousand U.S. dollars)

Pension expenses related to lump-sum payments upon retirement 4 million yen (45 thousand U.S. dollars)

Pension expenses related to the Employees' Pension Fund 0 million yen (9 thousand U.S. dollars)

(4) Basis of calculation of projected benefit obligation

Projected benefit obligation is calculated by the simplified method.

## 16. Net Income by Account

(For the year ended 31 March 2012)

Net income of the general account was 15,532 million yen, while net income of management account was 6,100 million yen.

(For the year ended 31 March 2013)

Net income of the general account was 20,828 million yen (220,877 thousand U.S. dollars), while there was no net income of management account.

## 17. Information by Account (Balance sheets)

Balance sheets of general account and management account as of 31 March 2012 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	¥5,351,164	¥17,036,246		¥22,387,411
Securities	762,987			762,987
Cash and bank deposits	172,250			172,250
Other assets	2,628	12,266		14,894
Tangible fixed assets	2,563			2,563
Intangible fixed assets	600			600
Due from general account		820,207	¥(820,207)	
Due to management account for fund for lending rate reduction	292,831		(292,831)	
Total assets	6,585,025	17,868,720	(1,113,038)	23,340,707
(Liabilities)				
Bonds	3,892,818	14,283,877		18,176,696
Borrowed money	30,000			30,000
Other liabilities	1,872	13,500		15,373
Reserve for bonuses	47			47
Reserve for directors' bonuses	6			6
Reserve for retirement benefits	146			146
Reserve for retirement benefits for directors and corporate auditors	23			23
Fund for lending rate reduction	919,871			919,871
Basic fund for lending rate reduction	911,935			911,935
Additional fund for lending rate reduction	7,936			7,936
Due to management account	820,207		(820,207)	
Due from general account for fund for lending rate reduction		292,831	(292,831)	
Reserves under special laws	880,000	3,224,844		4,104,844
Reserve for interest rate volatility	880,000			880,000
Management account reserve for interest rate volatility		3,137,557		3,137,557
Reserve for interest rate reduction		87,287		87,287
Total liabilities	6,544,995	17,815,054	(1,113,038)	23,247,010
(Net Assets)				
Capital	16,602			16,602
Retained earnings	29,393			29,393
General account surplus reserve	29,393			29,393
Valuation, translation adjustments and others	(5,964)			(5,964)
Management account surplus reserve		53,666		53,666
Total net assets	40,030	53,666		93,696
Total liabilities and net assets	¥6,585,025	¥17,868,720	¥(1,113,038)	¥23,340,707

Balance sheets of general account and management account as of 31 March 2013 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	¥7,175,673	¥15,492,961		¥22,668,634
Securities	598,994			598,994
Cash and bank deposits	419,267			419,267
Other assets	3,251	10,922		14,173
Tangible fixed assets	2,964			2,964
Intangible fixed assets	883			883
Due from general account		939,648	¥(939,648)	
Due to management account for fund for lending rate reduction	242,831		242,831	
Total assets	8,443,866	16,443,532	(1,182,479)	23,704,919
(Liabilities)				
Bonds	5,389,185	13,287,215		18,676,401
Borrowed money	30,000			30,000
Other liabilities	2,388	12,732		15,121
Reserve for bonuses	47			47
Reserve for directors' bonuses	5			5
Reserve for retirement benefits	141			141
Reserve for retirement benefits for directors and corporate auditors	27			27
Fund for lending rate reduction	922,568			922,568
Basic fund for lending rate reduction	915,698			915,698
Additional fund for lending rate reduction	6,869			6,869
Due to management account	939,648		(939,648)	
Due from general account for fund for lending rate reduction		242,831	(242,831)	
Reserves under special laws	1,100,000	2,847,086		3,947,086
Reserve for interest rate volatility	1,100,000			1,100,000
Management account reserve for interest rate volatility		2,771,200		2,771,200
Reserve for interest rate reduction		75,885		75,885
Total liabilities	8,384,012	16,389,866	(1,182,479)	23,591,399
(Net Assets)				
Capital	16,602			16,602
Retained earnings	50,221			50,221
General account surplus reserve	50,221			50,221
Valuation, translation adjustments and others	(6,970)			(6,970)
Management account surplus reserve		53,666		53,666
Total net assets	59,853	53,666		113,520
Total liabilities and net assets	¥8,443,866	¥16,443,532	¥(1,182,479)	¥23,704,919

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	\$76,094,098	\$164,294,391		\$240,388,489
Securities	6,352,012			6,352,012
Cash and bank deposits	4,446,104			4,446,104
Other assets	34,476	115,830		150,306
Tangible fixed assets	31,439			31,439
Intangible fixed assets	9,371			9,371
Due from general account		9,964,457	\$(9,964,457)	
Due to management account for fund for lending rate reduction	2,575,095		(2,575,095)	
Total assets	89,542,595	174,374,678	(12,539,552)	251,377,721
(Liabilities)				
Bonds	57,149,371	140,903,662		198,053,033
Borrowed money	318,134			318,134
Other liabilities	25,326	135,026		160,352
Reserve for bonuses	498			498
Reserve for directors' bonuses	57			57
Reserve for retirement benefits	1,505			1,505
Reserve for retirement benefits for directors and corporate auditors	291			291
Fund for lending rate reduction	9,783,339			9,783,339
Basic fund for lending rate reduction	9,710,487			9,710,487
Additional fund for lending rate reduction	72,852			72,852
Due to management account	9,964,457		(9,964,457)	
Due from general account for fund for lending rate reduction		2,575,095	(2,575,095)	
Reserves under special laws	11,664,899	30,191,795		41,856,694
Reserve for interest rate volatility	11,664,899			11,664,899
Management account reserve for interest rate volatility		29,387,070		29,387,070
Reserve for interest rate reduction		804,725		804,725
Total liabilities	88,907,877	173,805,578	(12,539,552)	250,173,903
(Net Assets)				
Capital	176,056			176,056
Retained earnings	532,576			532,576
General account surplus reserve	532,576			532,576
Valuation, translation adjustments and others	(73,914)			(73,914)
Management account surplus reserve		569,100		569,100
Total net assets	634,718	569,100		1,203,818
Total liabilities and net assets	\$89,542,595	\$174,374,678	\$(12,539,552)	\$251,377,721

Notes:1. General account and management account

In accordance with the provisions of Article 13, Section 1 of the Supplementary Provisions of the Law, management account is used to conduct administration, collection and other related operations of the assets that JFM inherited from the Predecessor (management of the assets of the Predecessor).

Management account is separated from the other account (general account) pursuant to the provisions of Article 13, Section 3 of the Supplementary Provisions of the Law.

2. General account surplus reserve and management account surplus reserve

"Net income" of the general account is posted as "General account surplus reserve" in accordance with the provisions of Article 39, Section 1 of the Law, while "Net income" of management account is posted

as “Management account surplus reserve” in accordance with the provisions of Article 13, Section 8 of the Supplementary Provisions the Law.

3. Due from general account and due to management account

These amounts represent funds lent between the general account and management account pursuant to the provisions of Article 13, Section 4 of the Supplementary Provisions of the Law.

4. Due from general account for fund for lending rate reduction and due to management account for fund for lending rate reduction

These amounts represent cash received for “Fund for lending rate reduction,” which was lent to management account from the general account pursuant to the provisions of Article 9, Section 12 of the Supplementary Provisions of the Law.

## 18. Information by Account (Statements of income)

Statements of income of general account and management account from 1 April 2011 through 31 March 2012 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
Income	¥83,092	¥456,669	¥(27,957)	¥511,805
Interest income	70,563	441,078		511,641
Fees and commissions	128			128
Other income	31	3		34
Administrative fee for management account	930		(930)	
Interest on fund for lending rate reduction	11,438		(11,438)	
Interest on due from general account		635	(635)	
Transfer from general account for fund for lending rate reduction		14,952	(14,952)	
Expenses	67,560	242,146	(27,957)	281,749
Interest expenses	46,922	227,397		274,320
Fees and commissions	43	231		275
Other operating expenses	2,503	2,035		4,539
General and administrative expenses	2,272	113		2,385
Other expenses	229			229
Transfer to fund for lending rate reduction	216			216
Others	12			12
Interest on due to management account	635		(635)	
Transfer to management account for fund for lending rate reduction	14,952		(14,952)	
Administrative fee for management account		930	(930)	
Interest on fund for lending rate reduction		11,438	(11,438)	
Ordinary income	15,532	214,523	-	230,055
Special gains	220,000	232,601	(220,000)	232,601
Provision for management account	220,000		(220,000)	
Reversal of management account reserve for interest rate volatility		220,000		220,000
Reversal of reserve for interest rate reduction		12,601		12,601
Special losses	220,000	441,024	(220,000)	441,024
Provision for reserve for interest rate volatility	220,000			220,000
Provision for management account reserve for interest rate volatility		221,024		221,024
Transfer to general account		220,000	(220,000)	
Net income	¥15,532	¥6,100	¥-	¥21,632

Statements of income of general account and management account from 1 April 2012 through 31 March 2013 were as follows:

(Millions of yen)				
Item	General account	Management account	Offset	Total
Income	¥101,284	¥408,131	¥(22,268)	¥487,146
Interest income	91,436	394,238		485,675
Fees and commissions	123			123
Other income	1,348	0		1,348
Contributions from fund for lending rate reduction	1,066			1,066
Others	281	0		281
Administrative fee for management account	965		(965)	
Interest on fund for lending rate reduction	7,410		(7,410)	
Interest on due from general account		622	(622)	
Transfer from general account for fund for lending rate reduction		13,270	(13,270)	
Expenses	80,455	215,889	(22,268)	274,076
Interest expenses	61,098	204,548		265,647
Fees and commissions	61	219		280
Other operating expenses	2,914	2,604		5,519
General and administrative expenses	2,488	141		2,629
Interest on due to management account	622		(622)	
Transfer to management account for fund for lending rate reduction	13,270		(13,270)	
Administrative fee for management account		965	(965)	
Interest on fund for lending rate reduction		7,410	(7,410)	
Ordinary income	20,828	192,241	-	213,070
Special gains	220,000	581,402	(220,000)	581,402
Provision for management account	220,000		(220,000)	
Reversal of management account reserve for interest rate volatility		570,000		570,000
Reversal of reserve for interest rate reduction		11,402		11,402
Special losses	220,000	773,643	(220,000)	773,643
Provision for reserve for interest rate volatility	220,000			220,000
Provision for management account reserve for interest rate volatility		203,643		203,643
Transfer to general account		220,000	(220,000)	
Payment to national treasury		350,000		350,000
Net income	¥20,828	¥-	¥-	¥20,828

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
Income	\$1,074,067	\$4,328,007	\$(236,146)	\$5,165,928
Interest income	969,639	4,180,685		5,150,324
Fees and commissions	1,308			1,308
Other income	14,296	0		14,296
Contributions from fund for lending rate reduction	11,306			11,306
Others	2,990	0		2,990
Administrative fee for management account	10,237		(10,237)	
Interest on fund for lending rate reduction	78,587		(78,587)	
Interest on due from general account		6,600	(6,600)	
Transfer from general account for fund for lending rate reduction		140,722	(140,722)	
Expenses	853,190	2,289,389	(236,146)	2,906,433
Interest expenses	647,918	2,169,128		2,817,046
Fees and commissions	652	2,324		2,976
Other operating expenses	30,911	27,616		58,527
General and administrative expenses	26,387	1,497		27,884
Interest on due to management account	6,600		(6,600)	
Transfer to management account for fund for lending rate reduction	140,722		(140,722)	
Administrative fee for management account		10,237	(10,237)	
Interest on fund for lending rate reduction		78,587	(78,587)	
Ordinary income	220,877	2,038,618	-	2,259,495
Special gains	2,332,980	6,165,451	(2,332,980)	6,165,451
Provision for management account	2,332,980		(2,332,980)	
Reversal of management account reserve for interest rate volatility		6,044,539		6,044,539
Reversal of reserve for interest rate reduction		120,912		120,912
Special losses	2,332,980	8,204,069	(2,332,980)	8,204,069
Provision for reserve for interest rate volatility	2,332,980			2,332,980
Provision for management account reserve for interest rate volatility		2,159,530		2,159,530
Transfer to general account		2,332,980	(2,332,980)	
Payment to national treasury		3,711,559		3,711,559
Net income	\$220,877	\$-	\$-	\$220,877

## 19. Fair Value of Marketable Securities

Marketable held-to-maturity securities as of 31 March 2012 consisted of the following:

(Millions of yen)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Treasury discount bills	¥96,987	¥96,979	¥(8)	¥-	¥(8)
Negotiable certificates of deposit	666,000	666,000	-	-	-
Total	¥762,987	¥762,979	¥(8)	¥-	¥(8)

Marketable held-to-maturity securities as of 31 March 2013 consisted of the following:

(Millions of yen)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Treasury discount bills	¥44,994	44,995	¥0	¥0	¥-
Negotiable certificates of deposit	554,000	554,000	-	-	-
Total	¥598,994	¥598,995	¥0	¥0	¥-

(Thousands of U.S. dollars)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Treasury discount bills	\$ 477,145	\$ 477,153	\$8	\$8	\$-
Negotiable certificates of deposit	5,874,867	5,874,867	-	-	-
Total	\$ 6,352,012	\$ 6,352,020	\$8	\$8	\$-

Notes: 1. The fair value of treasury discount bills is based on market price at the end of the fiscal year.

2. The balance sheet amount for negotiable certificates of deposit is the fair value.

3. Difference is the net amount of "unrealized gains" and "unrealized losses."



## 20. Information on Derivative Transactions

### (1) Types of derivative transactions

Derivative transactions entered into by JFM are interest rate swaps for interest rate related transactions, and currency swaps and foreign exchange forward contracts for currency related transactions.

### (2) Policies and purposes of derivative transactions

JFM uses interest rate swaps, currency swaps and foreign exchange forward contracts as a means of hedging exposure to interest rate and foreign exchange fluctuation risks, and does not enter into derivatives for speculative purposes.

Interest rate swaps are used to hedge exposure to interest rate risk on funding activities. Currency swaps and foreign exchange forward contracts are used to hedge exposure to foreign exchange risk associated with issuance of foreign currency-denominated bonds and foreign currency-denominated deposits.

Hedge accounting is applied to interest rate swaps, currency swaps and foreign exchange contracts.

#### (a) Hedge accounting method

Interest rate swaps used to hedge the risk of interest rate fluctuations that qualify for hedge accounting and meet specific matching criteria are not measured at fair value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. If swap contracts or forward contracts used to hedge the risk of foreign currency fluctuation qualify for deferral hedge accounting, the foreign currency-denominated assets and liabilities are translated at the contracted rate.

#### (b) Hedging instruments and hedged items

##### (i) Hedging instruments: Interest rate swaps

Hedged items: Bonds and borrowed money

##### (ii) Hedging instruments: Currency swaps

Hedged items: Foreign currency-denominated bonds

##### (iii) Hedging instruments: Foreign exchange forward contracts

Hedged items: Receipt of interest and principal of foreign currency-denominated bank deposits

#### (c) Hedging policy

JFM uses hedging instruments as a means of hedging exposure to interest rate risk and foreign exchange risk. Hedged items are identified by each individual contract.

As a means of hedging foreign exchange fluctuation risks associated with the receipt of interest and principal of foreign currency-denominated bank deposits, a foreign exchange forward contract is entered into at the time of each deposit by JFM.

#### (d) Assessment of hedge effectiveness

JFM ensures hedging instruments and hedged items have the same major terms when entering into hedge transactions to offset bond and borrowed money market fluctuation risks.

Accordingly, JFM deems these to be highly effective and thus does not assess their effectiveness. Moreover, a periodic assessment of hedge effectiveness for interest rate swaps and currency swaps and forward contracts that qualify for deferral hedge accounting is omitted when the exceptional accrual method is applied.

### (3) Risks on derivative transactions

Major risks on derivative transactions are market risk and credit risk. Market risk is the risk of future revenue fluctuations due to market value changes. Credit risk is the risk of losses incurred when counterparties are unable to fulfill their contracts due to bankruptcy or other reasons.

As for derivative transactions used for hedging purposes, market risk is offset by the corresponding change into underlying hedged items.

JFM enters into ISDA Master Agreements and CSA with financial institutions, which are its derivative transactions counterparties, to reduce credit risk. Moreover, JFM constantly monitors the transactions' restructuring costs and their credit profiles, and deals with multiple counterparties.

### (4) Risk management system for derivative transactions

Execution and management of derivative transactions are conducted by the Finance Department of JFM with the approval of persons in charge in accordance with the operational guidelines which specify transaction authority and limits on the transaction amount.

Additionally, the total amount of derivative transactions, the status of risks, the assessed fair value, and the credit risk on counterparties are regularly reported to the Integrated Risk Management Committee.

# Independent Auditor's Report



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## Independent Auditor's Report

The President of Japan Finance Organization for Municipalities

Pursuant to Article 37, paragraph 1 of the Japan Finance Organization for Municipalities Law (the "Law"), we have audited the accompanying financial statements of Japan Finance Organization for Municipalities ("JFM"), which comprise the balance sheets as at March 31, 2013 and 2012, and the statements of income, appropriation of profit, changes in net assets, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *President's Responsibility for the Financial Statements*

The President of JFM is responsible for the preparation and fair presentation of these financial statements in accordance with the Law, the ordinances based on the Law and other regulations applicable to JFM (collectively hereinafter, the "Law and regulations applicable to JFM") and accounting principles generally accepted in Japan, and for designing and operating such internal control as the President determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. The purpose of an audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the President, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of JFM as at March 31, 2013 and 2012, and its financial performance and cash flows for the years then ended in conformity with the Law and regulations applicable to JFM and accounting principles generally accepted in Japan (refer to Note 1 of the accompanying notes to the financial statements).

### *Convenience Translation*

We have reviewed the translation of these financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying financial statements have been properly translated on the basis described in Note 1.

### *Conflicts of Interest*

There is no interest in JFM which should be disclosed in compliance with the Certified Public Accountants Act.

*Ernst & Young ShinNihon LLC*

May 21, 2013

A member firm of Ernst & Young Global Limited